



CHILDFUND INTERNATIONAL, USA

Consolidated Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

CHILDFUND INTERNATIONAL, USA

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position – June 30, 2016	3
Consolidated Statement of Activities – Year ended June 30, 2016	4
Consolidated Statement of Cash Flows – Year ended June 30, 2016	5
Consolidated Statement of Functional Expenses – Year ended June 30, 2016	6
Notes to Consolidated Financial Statements	7



KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Directors
ChildFund International, USA:

We have audited the accompanying consolidated financial statements of ChildFund International, USA, (ChildFund), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChildFund as of June 30, 2016, and the changes in their net assets, their cash flows, and their functional expenses for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited ChildFund International, USA's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

November 22, 2016

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Financial Position

June 30, 2016

(with summarized financial information as of June 30, 2015)

Assets	2016	2015
Cash and cash equivalents (note 3)	\$ 21,539,066	18,701,139
Receivable from affiliates (note 11)	2,000,589	1,845,632
Grants receivable	3,005,294	4,645,272
Accounts receivable and other assets	11,277,166	9,700,998
Investments (notes 4 and 5)	54,804,239	52,092,075
Beneficial interests in trusts (notes 4 and 5)	8,712,819	9,251,106
Property, plant and equipment, net (note 6)	23,579,314	19,949,064
Total assets	\$ <u>124,918,487</u>	<u>116,185,286</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses (note 5)	\$ 19,722,916	18,581,967
Accrued pension benefit liability (note 7)	11,279,337	7,023,267
Debt (note 8)	11,645,834	4,000,000
Total liabilities	<u>42,648,087</u>	<u>29,605,234</u>
Net assets:		
Unrestricted (note 16)	27,395,413	32,558,979
Temporarily restricted (notes 9 and 16)	38,002,155	36,721,856
Permanently restricted (notes 5, 10 and 16)	16,872,832	17,299,217
Total net assets	82,270,400	86,580,052
Contingencies (notes 8 and 15)		
Total liabilities and net assets	\$ <u>124,918,487</u>	<u>116,185,286</u>

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Activities

Year ended June 30, 2016

(with summarized financial information for the year ended June 30, 2015)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2016	2015
Public support (note 12):					
Sponsorships (note 11):					
U.S. sponsors	\$ —	77,399,881	—	77,399,881	78,519,240
International sponsors	—	48,447,139	—	48,447,139	56,310,877
Special gifts from sponsors for children	—	12,147,711	—	12,147,711	13,516,271
Total sponsorships	—	137,994,731	—	137,994,731	148,346,388
Contributions:					
General contributions (notes 5 and 11)	7,923,818	7,762,415	80,460	15,766,693	19,325,159
Major gifts and bequests	2,025,086	—	—	2,025,086	3,422,928
Gifts in kind	28,885,667	13,398,537	—	42,284,204	34,600,240
Total contributions	38,834,571	21,160,952	80,460	60,075,983	57,348,327
Grants:					
Grants and contracts	35,512,121	—	—	35,512,121	40,840,551
Total public support	74,346,692	159,155,683	80,460	233,582,835	246,535,266
Revenue:					
Investment income and currency transactions, net (note 4)	476,233	133,630	—	609,863	707,610
Service fees and other (note 11)	1,221,882	—	—	1,221,882	1,643,961
Total revenue	1,698,115	133,630	—	1,831,745	2,351,571
Net assets released from restrictions:					
Satisfaction of program and time restrictions	160,358,059	(160,358,059)	—	—	—
Total public support and revenue	236,402,866	(1,068,746)	80,460	235,414,580	248,886,837
Expenses (notes 6, 7 and 8):					
Program:					
Basic education	76,408,957	—	—	76,408,957	84,281,868
Health and sanitation	42,273,365	—	—	42,273,365	38,974,187
Nutrition	15,536,619	—	—	15,536,619	17,752,953
Early childhood development	22,852,848	—	—	22,852,848	24,733,801
Micro enterprise	25,008,078	—	—	25,008,078	22,636,836
Emergencies	14,831,982	—	—	14,831,982	23,035,509
Total program	196,911,849	—	—	196,911,849	211,415,154
Supporting services:					
Fund raising	21,110,581	—	—	21,110,581	21,547,935
Management and general	17,676,906	—	—	17,676,906	16,919,082
Total supporting services	38,787,487	—	—	38,787,487	38,467,017
Total expenses for operations	235,699,336	—	—	235,699,336	249,882,171
Change in net assets from operations	703,530	(1,068,746)	80,460	(284,756)	(995,334)
Nonoperating (losses) gains:					
Realized (losses) gains on investments, net (note 4)	(159,042)	(36,105)	—	(195,147)	937,007
Unrealized losses on investments, net (note 4)	(673,526)	(110,930)	—	(784,456)	(1,751,523)
Change in fair value of trusts (note 5)	—	(21,442)	(506,845)	(528,287)	(430,224)
Change in accrued pension benefit liability other than net periodic costs (note 7)	(5,034,528)	—	—	(5,034,528)	(1,720,418)
Total nonoperating losses	(5,867,096)	(168,477)	(506,845)	(6,542,418)	(2,965,158)
Addition of newly controlled entity (note 2)	—	2,517,522	—	2,517,522	—
Change in net assets	(5,163,566)	1,280,299	(426,385)	(4,309,652)	(3,960,492)
Net assets at beginning of year	32,558,979	36,721,856	17,299,217	86,580,052	90,540,544
Net assets at end of year	\$ 27,395,413	38,002,155	16,872,832	82,270,400	86,580,052

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Consolidated Statement of Cash Flows

Year ended June 30, 2016

(with summarized financial information for the year ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (4,309,652)	(3,960,492)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,447,928	3,111,484
Change due to addition of newly controlled entity	346,059	—
Realized losses (gains) on investments	195,147	(937,007)
Unrealized losses on investments	784,456	1,751,523
Proceeds from termination of charitable remainder trusts	10,000	3,117,344
Change in gifts in kind not distributed	(2,551,061)	4,299,895
Change in fair value of trusts	528,287	430,224
Gain on sale of property, plant and equipment	(81,360)	(96,776)
Contributions restricted for long-term investment	80,460	(48,576)
Change in accrued pension benefit liability other than net periodic costs	5,034,528	1,720,418
Changes in operating assets and liabilities:		
Grants receivable	1,660,771	(1,214,590)
Receivable from affiliates	(154,957)	449,651
Accounts receivable and other assets	1,004,708	(1,069,983)
Accounts payable and accrued expenses	(347,447)	1,148,724
Accrued pension benefit liability	(778,458)	(1,027,251)
Net cash provided by operating activities	<u>3,869,409</u>	<u>7,674,588</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,986,449)	(3,440,904)
Proceeds from sales of property, plant and equipment	81,360	96,776
Proceeds from sales of investments	7,952,995	9,446,335
Purchases of investments	(11,644,762)	(11,054,281)
Net cash used in investing activities	<u>(8,596,856)</u>	<u>(4,952,074)</u>
Cash flows from financing activities:		
Proceeds from borrowings of debt	9,000,000	300,000
Payment of debt	(1,354,166)	—
Payment of line of credit	(621,000)	(23,271,000)
Proceeds from borrowings of line of credit	621,000	23,271,000
Contributions restricted for long-term investment	(80,460)	48,576
Net cash provided by financing activities	<u>7,565,374</u>	<u>348,576</u>
Net increase in cash and cash equivalents	2,837,927	3,071,090
Cash and cash equivalents at beginning of year	<u>18,701,139</u>	<u>15,630,049</u>
Cash and cash equivalents at end of year	<u>\$ 21,539,066</u>	<u>18,701,139</u>
Supplemental cash flow information:		
Interest paid	\$ 59	3,638
Supplemental disclosures of noncash transactions:		
Gifts in kind	\$ 42,284,204	34,600,240
Purchases of property, plant and equipment funded by accounts payable and accrued expenses	1,091,729	902,441
Changes in operating accounts due to addition of newly controlled entity		
Grants receivable	(20,793)	—
Accounts receivable and other assets	(29,815)	—
Accounts payable and accrued expenses	396,667	—

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA
Consolidated Statement of Functional Expenses
Year ended June 30, 2016
(with summarized financial information for the year ended June 30, 2015)

	Program services							Supporting services			Program and supporting services	
	Basic education	Health and sanitation	Nutrition	Early childhood development	Micro enterprise	Emergencies	Total program services	Fund raising	Management and general	Total supporting services	2016	2015
Subsidies for children	\$ 45,601,186	12,534,236	6,286,578	11,978,582	9,132,268	4,208,434	89,741,284	—	—	—	89,741,284	99,115,249
Program grants	20,043,759	23,689,050	7,023,588	7,621,382	12,343,285	8,502,300	79,223,364	—	—	—	79,223,364	82,312,877
Supplies	106,921	60,097	22,116	32,312	35,089	21,071	277,606	99,554	264,136	363,690	641,296	658,786
Occupancy	537,214	301,950	111,119	162,346	176,303	105,868	1,394,800	174,844	224,621	399,465	1,794,265	1,792,870
Professional services	108,382	60,918	22,418	32,753	35,569	21,359	281,399	21,173	235,186	256,359	537,758	686,870
Contract services	678,232	381,211	140,287	204,962	222,582	133,658	1,760,932	5,060,494	3,844,044	8,904,538	10,665,470	7,732,731
Travel	434,421	244,173	89,857	131,282	142,568	85,611	1,127,912	375,300	289,322	664,622	1,792,534	1,847,598
Conferences and meetings	286,099	160,807	59,177	86,459	93,892	56,381	742,815	48,177	108,341	156,518	899,333	968,018
Automobile and truck expense	100,885	56,704	20,867	30,487	33,108	19,881	261,932	20,731	173	20,904	282,836	392,233
Advertising and public education	10,234	5,752	2,117	3,093	3,359	2,017	26,572	9,489,345	202,947	9,692,292	9,718,864	12,385,329
Equipment purchases and rentals	124,433	69,939	25,738	37,604	40,836	24,522	323,072	43,161	173,305	216,466	539,538	646,941
Telephone and cables	152,911	85,946	31,629	46,210	50,182	30,134	397,012	57,766	173,898	231,664	628,676	697,517
Postage and freight	52,224	29,353	10,802	15,782	17,139	10,292	135,592	766,675	642,371	1,409,046	1,544,638	1,712,330
Publication and printing costs	—	—	—	—	—	—	—	583	14,006	14,589	14,589	13,856
Staff training	35,405	19,900	7,323	10,699	11,619	6,977	91,923	6,293	13,709	20,002	111,925	208,360
Miscellaneous expenses	155,014	87,128	32,063	46,845	50,872	30,548	402,470	355,629	2,099,718	2,455,347	2,857,817	2,810,380
Total expenses before personnel costs and other expenses	68,427,320	37,787,164	13,885,679	20,440,798	22,388,671	13,259,053	176,188,685	16,519,725	8,285,777	24,805,502	200,994,187	213,981,945
Personnel costs	7,277,302	4,090,319	1,505,254	2,199,200	2,388,259	1,434,127	18,894,461	4,423,982	8,938,719	13,362,701	32,257,162	32,785,104
Depreciation and interest	704,335	395,882	145,686	212,850	231,148	138,802	1,828,703	166,874	452,410	619,284	2,447,987	3,115,122
Total expenses from operations	\$ 76,408,957	42,273,365	15,536,619	22,852,848	25,008,078	14,831,982	196,911,849	21,110,581	17,676,906	38,787,487	235,699,336	249,882,171

See accompanying notes to consolidated financial statements.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(1) Organization

ChildFund International, USA (ChildFund), formerly known as Christian Children's Fund, Inc. was established in 1938 and has developed into an international, nonsectarian, not-for-profit child development organization. ChildFund assists children and family members in 27 countries worldwide. There are approximately 536,000 enrolled children in ChildFund's programs. Of these children, approximately 458,000 are sponsored children who are supported through monthly contributions.

Most of the sponsorships – more than 232,000 – are supported by U.S. donors; the remainder are supported by in-country fundraising offices and international donors who sponsor children through members of ChildFund Alliance in Australia, Canada, Denmark, France, Germany, Ireland, Japan, Korea, New Zealand, Sweden, and Taiwan. ChildFund is a member of ChildFund Alliance, a global network of 11 child development organizations.

ChildFund is incorporated and headquartered in the Commonwealth of Virginia.

(2) Summary of Significant Accounting Policies

ChildFund's accounting policies are summarized as follows:

(a) Basis of Accounting

The accompanying consolidated financial statements have been prepared using the accrual method of accounting in accordance with U.S. generally accepted accounting principles.

Balances and transactions are presented according to the existence or absence of donor-imposed restrictions. This has been accomplished by recording transactions into the following classes of net assets:

Unrestricted net assets – Net assets resulting from public support and revenue not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets resulting from public support and revenue whose use by ChildFund is limited by donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of ChildFund pursuant to those donor-imposed restrictions.

Permanently restricted net assets – Net assets that generally represent contributions and other inflows of assets whose use by ChildFund is permanently limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of ChildFund.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

Public support and revenue are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Sponsorship revenue is classified as temporarily restricted. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless donors or state law restrict their use.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the ChildFund international office, national offices, and fundraising offices. All significant transactions between the organizations, including all inter-organization balances, have been eliminated in consolidation. In compliance with local laws, certain of these national offices and fund raising offices are separate legal entities.

ChildFund established the India Society (the Society) in 1984. The Society is registered under the Societies Registration Act of 1860 and exists under the laws of India. In December 2015, the Society's governing body took action which gave ChildFund majority voting power of the governing body and therefore, ChildFund began consolidating the Society. The financial impact of the consolidation resulted in approximately \$2,900,000 in cash, \$51,000 in receivables, \$397,000 in payables, and \$2,517,000 temporarily restricted net assets being recorded by ChildFund.

(c) Use of Estimates

The preparation of the consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates and management judgments reflected in the consolidated financial statements include valuation of investments measured at net asset value (NAV) and beneficial interests in trusts and accrued pension benefit liability.

(d) Investments and Beneficial Interests in Trusts and Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10-65, *Fair Value Measurements and Disclosures*, established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that ChildFund has the ability to access at the measurement date.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

If the inputs used to measure the asset or liability fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability.

Investments in readily marketable equity securities and all debt securities are recorded at fair value, which are based on quoted market prices, where available. Due to variations in trading volumes and the lack of quoted market prices for some fixed maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data. If there are no recent reported trades, the fair value of fixed maturities may be derived through the use of matrix pricing or model processes, where the future cash flow expectations are developed based upon performance and discounted at an estimated market rate.

For investments measured at NAV, fair value is based on NAV reported by underlying investment managers and reviewed by ChildFund after considering various sources of information. These values are further evaluated by doing internal reviews on the current fair values of the securities within these investments. The NAV is utilized as a practical expedient for fair value. The estimates of fair values, because of the inherent uncertainty of valuation of these estimates, may differ from the values that would have been used had a ready market existed.

Except for investments where donors specifically provide otherwise, investments are maintained in a pooled account. Additions to investments are assigned units of participation in the pooled account based upon their fair value on the date they enter the pooled account and the most recently determined unit fair value for the existing units of participation. Withdrawals are based upon the most recently determined fair value of the respective units of participation that include both realized and unrealized net gains and losses. The market value of the units of participation is calculated monthly.

The fair value of beneficial interests in perpetual and charitable remainder trusts is estimated by applying ChildFund's share of the earnings of the trust times the fair value of the underlying assets in the trusts as of the reporting date.

Investments and beneficial interests in perpetual trusts are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investments and beneficial interests in trusts, it is at least reasonably possible that changes in the values of investments and beneficial interests in trusts will occur in the near term and that such changes could materially affect the amounts reported in ChildFund's consolidated financial statements.

Investment transactions are recorded on a trade date basis. Dividends are recorded on the ex-dividend date and interest is recognized on the accrual basis. Realized gains and losses are determined by specific identification. Realized and unrealized gains and losses and change in fair value of trusts are recorded in the nonoperating revenues section of the consolidated statement of activities. Fees paid to

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

custodian and investment managers are recorded on the accrual basis and are netted against investment income and currency transactions on the consolidated statement of activities.

(e) *Financial Instruments and Credit Risk*

Financial instruments, which potentially subject ChildFund to concentrations of credit risk, consist principally of cash and cash equivalents and investments. ChildFund invests its cash and investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution. ChildFund's cash balances include aggregate bank balances on deposit both inside the United States and with international banks outside the United States. These balances can exceed FDIC limits or in the case of international accounts, not be covered under the FDIC. ChildFund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. In some cases, ChildFund has opened segregated cash accounts to meet restrictions placed on those funds by the donor. In general, these are grant funded accounts.

Credit risk with respect to investments is generally limited, because by ChildFund's policy the investments are kept within limits designed to prevent risks caused by concentration.

(f) *Accounts Receivable and Other Assets*

Accounts receivable and other assets consist of general receivables, pledges receivable, advances, prepaid expenses and undistributed gifts-in-kind.

(g) *Property, Plant and Equipment*

Land is carried at cost or fair value at the date of donation in the case of gifts. Buildings, furniture, fixtures and equipment, and data processing are carried at cost or fair value at the date of donation in the case of gifts, less accumulated depreciation. Depreciation of buildings and equipment is recorded on a straight-line basis over the estimated useful lives of the assets (5 to 40 years for buildings and improvements, 3 to 10 years for furniture, fixtures, and equipment, and 3 to 10 years for data processing). Upon retirement and disposition, the cost and accumulated depreciation of buildings, furniture, fixtures, and equipment, and data processing are removed from the accounts with any gain or loss reflected in the consolidated statement of activities. Maintenance and repair costs are expensed as incurred.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(h) Revenue Recognition

Revenue is recognized during the period it is earned. Donated or contributed property, plant and equipment, investments, services and gifts-in-kind are recorded at fair value when received. The majority of gifts-in-kind consists of TOM shoes and public service announcements. The fair value of gifts-in-kind are recorded using an exit value approach. ChildFund received approximately \$8,290,700 and \$12,504,600 of gifts-in-kind shoes during the years ended June 30, 2016 and 2015, respectively. Approximately \$5,209,000 and \$3,721,000 of gifts-in-kind shoes yet to be distributed was included in accounts receivable and other assets at June 30, 2016 and 2015, respectively. ChildFund received approximately \$27,998,200 and \$17,840,900 of in-kind media and broadcast time in the form of public service announcements during the years ended June 30, 2016 and 2015, respectively. The public service announcements, which have been featured in major magazines, airports, high traffic malls and shopping centers, were designed to educate the public about the challenges faced in ChildFund's program communities. ChildFund uses a third party purchasing agency to secure its public service announcements from media outlets as well as to estimate their fair value under an exit value approach, using billing rates normally charged to other customers under similar circumstances.

Government grant revenue is recognized as earned, which is generally when costs are incurred. Sponsorship revenues are unconditional transfers of cash recognized during the period received. Since these contributions are made without any promise to give in future periods, there are no sponsorships receivable recorded in the consolidated statement of financial position.

(i) Expenses

Expenses are recognized during the period in which they are incurred. Expenses paid in advance primarily include insurance, advertising, postage and software maintenance and are deferred to the applicable period. The cost of providing various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities.

(j) Definition of Operations

Operating activities exclude realized and unrealized gains and losses on investments, change in fair value of trusts, and change in accrued pension benefit liability other than net periodic costs.

(k) Foreign Currency Translation

All cash balances in foreign banks have been translated at foreign exchange rates in effect as of year-end. No other assets or liabilities of ChildFund are subject to foreign currency translation. All foreign office revenue and expense amounts are converted at the rate of exchange in effect at approximately the date of the transaction.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(l) *Summarized Comparative Information*

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with ChildFund's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

(3) **Cash and Cash Equivalents**

ChildFund considers all short-term deposits with an original maturity of three months or less to be cash equivalents. Cash in excess of current operating and program requirements was invested throughout the year on a short-term basis in various money market instruments. Cash equivalents were approximately \$6,177,000 and \$5,061,000 as of June 30, 2016 and 2015, respectively.

(4) **Investments and Investment Return**

Investments, at fair value, as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Corporate and other obligations	\$ 73,971	331,544
Exchange traded funds	2,087,963	3,109,739
Time deposits	14,346,651	12,164,516
Mutual funds	31,859,340	29,915,184
Real estate funds	730,488	541,415
Funds of funds	5,705,826	6,029,677
Total	<u>\$ 54,804,239</u>	<u>52,092,075</u>

Investment return is summarized for the years ended June 30, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 1,200,816	1,340,007
Currency transaction losses, net	(524,270)	(517,236)
Investment expense	(66,683)	(115,161)
Total investment income and currency transactions, net	609,863	707,610
Realized (losses) gains on investments, net	(195,147)	937,007
Unrealized losses on investments, net	(784,456)	(1,751,523)
Total investment return, net	<u>\$ (369,740)</u>	<u>(106,906)</u>

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

The following table presents ChildFund's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Corporate and other obligations	\$ 73,971	—	73,971	—
Exchange traded funds	2,087,963	2,087,963		
Time deposits	14,346,651	14,346,651	—	—
Mutual funds:				
Long term equity	22,841,555	22,841,555	—	—
Long term fixed	9,017,785	9,017,785	—	—
Investments measured at NAV *	6,436,314	—	—	—
Total investments	54,804,239	48,293,954	73,971	—
Beneficial interests in trusts	8,712,819	—	—	8,712,819
Total assets	\$ 63,517,058	48,293,954	73,971	8,712,819

* Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following table summarizes information about the attributes of investments measured at NAV by major class as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Investments measured at NAV:				
Real estate	\$ 730,488	541,415	N/A	N/A
Absolute return, security selection, and hedging	4,215,493	4,388,655	Quarterly	100 days
Global equity	1,416,823	1,567,512	Monthly	30 days
Other	73,510	73,510	N/A	N/A
Total investments measured at NAV	\$ 6,436,314	6,571,092		

There were no material capital commitments to investment managers that have not been funded by ChildFund at June 30, 2016 and 2015.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

The following table presents ChildFund's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2015:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Corporate and other obligations	\$ 331,544	—	331,544	—
Exchange traded funds	3,109,739	3,109,739	—	—
Time deposits	12,164,516	12,164,516	—	—
Mutual funds:				
Long term equity	20,200,035	20,200,035	—	—
Long term fixed	8,570,855	8,570,855	—	—
International multi-asset	1,144,294	1,144,294	—	—
Investments measured at NAV *	6,571,092	—	—	—
Total investments	<u>52,092,075</u>	<u>45,189,439</u>	<u>331,544</u>	<u>—</u>
Beneficial interests in trusts	<u>9,251,106</u>	<u>—</u>	<u>—</u>	<u>9,251,106</u>
Total assets	<u>\$ 61,343,181</u>	<u>45,189,439</u>	<u>331,544</u>	<u>9,251,106</u>

* Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following table summarizes changes in Level 3 beneficial interests in trusts measured at fair value on a recurring basis for the periods ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 9,251,106	12,798,674
Proceeds from terminated charitable remainder trusts	(10,000)	(3,117,344)
Change in fair value of beneficial in trusts	<u>(528,287)</u>	<u>(430,224)</u>
Ending balance	<u>\$ 8,712,819</u>	<u>9,251,106</u>

There were no significant transfers of investments between levels in the fair value hierarchy during the years ended June 30, 2016 and 2015. There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2016 and 2015.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(5) Split Interest Agreements

(a) *Charitable Gift Annuities*

Total investments include amounts invested for ChildFund's charitable gift annuity program. These amounts are held in three segregated investment accounts. One for annuities issued to residents of California, one for annuities issued to residents of Florida, and another for annuities issued to residents of other states in which ChildFund is authorized to issue gift annuities. All segregated accounts are stated at fair value, as described in note 2(d).

Under the charitable gift annuity agreements, the donor contributes assets to ChildFund. In return for the contribution, ChildFund pays an annuity to the donor, and/or another annuitant selected by the donor, for the remainder of the annuitant's life, subject in some instances to a deferred beginning date. The payout is a fixed amount based on a percentage of the original gift, as defined by the agreement. The fair value of the assets received under the annuity agreement is held in the applicable segregated investment account and invested in assets intended to comply with any investment restrictions imposed by California or the other states in which ChildFund is authorized to issue gift annuities. Contribution income is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective annuitants.

These segregated investments as of June 30, 2016 and 2015 totaled \$2,234,213 and \$2,475,029, respectively, and are reported as investments on the consolidated statement of financial position. The liability associated with these charitable gift annuities is recorded at the present value of the gift based on the IAR 2012 tables and IRS interest rates as of the date of agreement which range from 1.2% to 7.2% as of June 30, 2016 and 2015. The liability amounts are included in accounts payable and accrued expenses on the consolidated statement of financial position as of June 30, 2016 and 2015 and total \$1,518,627 and \$1,289,723, respectively.

(b) *Perpetual Trusts*

ChildFund is the beneficiary of approximately 10 perpetual trusts created by donors, the assets of which are not in the possession of ChildFund. ChildFund has legally enforceable rights or claims to the income from the assets. The fair values of beneficial interest in perpetual trusts at June 30, 2016 and 2015 were \$8,358,245 and \$8,865,090, respectively. Net decrease of \$506,845 and \$387,753 related to changes in fair values of these trusts for the years ended June 30, 2016 and 2015, respectively, were reported in changes in permanently restricted net assets on the accompanying statement of activities. There were no perpetual trusts given to ChildFund during the years ended June 30, 2016 and 2015.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(c) *Charitable Remainder Trusts*

ChildFund is the beneficiary of approximately 8 charitable remainder trusts, the assets of which are not in the possession of ChildFund. The fair values of beneficial interests in charitable remainder trusts at June 30, 2016 and 2015 were \$354,574 and \$386,016. Net decrease of \$21,442 and \$42,471 related to changes in fair values of these trusts for the years ended June 30, 2016 and 2015, respectively, were reported in changes in temporarily restricted net assets on the accompanying statement of activities. Charitable remainder trusts terminated during the years ended June 30, 2016 and 2015 totaling \$10,000 and \$3,117,344, respectively.

(6) **Property, Plant and Equipment**

Property, plant, and equipment at June 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,146,128	1,146,128
Buildings and improvements	16,809,944	16,461,862
Data processing	19,757,784	19,514,647
Furniture, fixtures and equipment	9,586,421	9,994,412
Construction in progress	8,357,821	3,206,729
	<u>55,658,098</u>	<u>50,323,778</u>
Accumulated depreciation	<u>(32,078,784)</u>	<u>(30,374,714)</u>
Total	<u>\$ 23,579,314</u>	<u>19,949,064</u>

(7) **Benefit Plans**

ChildFund has a noncontributory defined benefit pension plan (the Pension Plan) and a defined contribution plan (403(b) Plan). Effective June 30, 2006, ChildFund elected to freeze the Pension Plan.

(a) *Pension Plan*

The following table summarizes the Pension Plan benefit obligation. The RP-2014 Mortality Table, adjusted to 2006 with full generational mortality improvement using the MP2015 table, was used for

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

the year ended June 30, 2016 and the RP-2014 Mortality Table with no projection was used for the year ended June 30, 2015.

	<u>2016</u>	<u>2015</u>
Projected and accumulated benefit obligation	\$ 31,759,610	28,682,041
Benefit obligation	(31,759,610)	(28,682,041)
Fair value of plan assets	20,480,273	21,658,774
Funded status	(11,279,337)	(7,023,267)
Accrued pension benefit liability	\$ 11,279,337	7,023,267

Benefit obligation and net periodic pension cost were determined using the following weighted average assumptions:

	<u>2016</u>	<u>2015</u>
Benefit obligation discount rate	3.25%	4.00%
Net periodic pension cost discount rate	4.00	4.00
Expected return on plan assets	7.50	7.50
Rate of compensation increase	N/A	N/A

The Pension Plan utilizes a measurement date of June 30. The amount of benefit payments from the Pension Plan for the years ended June 30, 2016 and 2015 were \$1,875,109 and \$1,786,882, respectively.

Expected future benefit payments of the Pension Plan as of June 30, 2016 are as follows:

2017	\$ 1,878,462
2018	1,864,568
2019	1,843,064
2020	1,834,799
2021	1,814,814
2022–2026	8,925,369

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

Employer contributions made by ChildFund to the Pension Plan were \$1,298,869 and \$1,625,214 during the years ended June 30, 2016 and 2015, respectively. The estimated contribution for the year ending June 30, 2017 is \$501,279. At June 30, 2016 and 2015, the unrecognized net actuarial loss was \$17,217,517 and \$12,182,989, respectively. Amortization of the unrecognized net actuarial loss for the year ending June 30, 2017 will be \$1,312,968. The change in accrued pension benefit liability other than net periodic costs was (\$5,034,528) and (\$1,720,418) during the years ended June 30, 2016 and 2015, respectively.

	2016	2015
Net periodic pension cost:		
Interest cost	\$ 1,110,938	1,069,732
Expected return on plan assets	(1,630,427)	(1,516,905)
Amortization of net actuarial loss	1,039,900	1,045,136
Net periodic pension cost	\$ 520,411	597,963

Pension costs are determined using the service prorate projected unit credit actuarial cost method. The plan is funded on a current basis as deemed necessary by management and the Pension Plan's consulting actuaries. The Pension Plan is subject to the applicable provisions of the Employment Retirement Income Security Act of 1974, as amended.

The fair values of the Pension Plan assets at June 30, 2016 and 2015 by asset category are as follows:

	2016	2015
Investments:		
Separate accounts:		
Cash and cash equivalents	\$ 21,009	18,768
Receivable for securities sold	738,291	853,672
Mutual funds – equity	12,589,142	13,270,402
Mutual funds – fixed income	7,131,831	7,515,932
Total	\$ 20,480,273	21,658,774

The Pension Plan's assets consist of a group annuity contract with the Metropolitan Life Insurance Company, which is backed by nine separate accounts. The separate accounts invest in mutual funds with a focus on equity and fixed income securities. The value of the contract is dependent on the values of the units of the separate accounts funding the contract. The fair value of the separate accounts is determined based on daily unit NAV, primarily using quoted market prices of the underlying securities (or similar securities). The underlying investments of the separate accounts are stated at fair value as determined by quoted market prices in an active market or when not available, quoted market prices in an inactive market. The remaining component of the contract includes an interest bearing cash account used by the Pension Plan to flow through funds from the separate accounts to pay the guaranteed monthly benefit payments to retirees.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

The expected role of the Pension Plan equity investments is to maximize the long-term real growth of assets, while the role of fixed income investments is to generate current income, provide for more stable returns and provide some protection against a prolonged decline in the fair value of equity investments.

The asset allocation for the Pension Plan at June 30, 2016 and 2015 and the target allocation for fiscal year 2016 by asset category are as follows:

	Target allocation	Percentage of plan assets at year end	
	2016	2016	2015
	Equity	60.0%	60.9%
Fixed	40.0	37.2	39.1
Other	—	1.9	—
Total	100.0%	100.0%	100.0%

ChildFund's policy is to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations stated above. The assets will be reallocated periodically to meet the above target allocations.

The expected long-term rate of return for the Pension Plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 9.50% over the long-term, while fixed income is expected to return 3.25%.

The following table presents ChildFund's fair value hierarchy for the Pension Plan assets measured at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Investments:				
Group annuity contract:				
Cash and cash equivalents	\$ 21,009	—	—	21,009
Receivable for securities sold	—	738,291	—	738,291
Mutual funds – equity	—	12,589,142	—	12,589,142
Mutual funds – fixed income	—	7,131,831	—	7,131,831
Total	\$ 21,009	20,459,264	—	20,480,273

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

The following table presents ChildFund's fair value hierarchy for the Pension Plan assets measured at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Investments:				
Group annuity contract:				
Cash and cash equivalents	\$ 18,768	—	—	18,768
Receivable for securities sold	—	853,672	—	853,672
Mutual funds – equity	—	13,270,402	—	13,270,402
Mutual funds – fixed income	—	7,515,932	—	7,515,932
Total	\$ 18,768	21,640,006	—	21,658,774

(b) 403(b) Plan

All employees are eligible to participate in the 403(b) Plan. ChildFund contributed a nonvoluntary amount equal to 6% of employees' base pay to the 403(b) Plan each payroll period for all employees. In addition, ChildFund also matches 50% of the first 6% of base pay that a participant contributes to the Plan. The actual rate is approved annually by the ChildFund Board of Directors (the Board). Total expense recognized for the years ended June 30, 2016 and 2015 related to the 403(b) Plan was \$701,755 and \$841,146, respectively.

(8) Debt

At both June 30, 2016 and 2015, ChildFund had a \$10,000,000 revolving line of credit. The line of credit payable was due and payable on July 31, 2016, however ChildFund entered into an agreement in July 2016 to extend the line of credit until February 2017. Interest expense is based on daily one month LIBOR + 95 basis points and is due and payable in consecutive monthly payments until fully paid. The line of credit is collateralized by ChildFund's corporate headquarters building located in Richmond, Virginia. At both June 30, 2016 and 2015, no amounts were outstanding on the line of credit.

On August 9, 2013 ChildFund entered into a \$13,000,000 commercial note that matures on August 9, 2023. The interest rate on the note is 3.67% per annum. From September 1, 2013 through August 1, 2015, interest payments on outstanding principal, as applicable, were due monthly. From September 1, 2015 through August 1, 2023, principal payments, as applicable, are due monthly in the amount of \$135,417 along with interest payments on outstanding principal, as applicable. The note contains certain financial covenants that must be adhered to by ChildFund. ChildFund was in compliance with all debt covenants during the years ended June 30, 2016 and 2015. As of June 30, 2016 and 2015, the outstanding loan balance was \$11,645,834 and \$4,000,000, respectively.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Subsidies and gifts for children	\$ 22,992,600	23,155,249
Appeal funded programs	4,002,856	6,096,857
Gifts in kind not distributed	7,153,092	4,602,031
Time restricted	354,574	386,016
Local programs and other	3,499,033	2,481,703
Total	<u>\$ 38,002,155</u>	<u>36,721,856</u>

(10) Permanently Restricted Net Assets

Permanently restricted net assets were \$16,872,832 and \$17,299,217 at June 30, 2016 and 2015, respectively. The principal of these net assets must be invested in perpetuity; however, the income is expendable to support subsidies for children and other restricted program activities.

(11) International Sponsors

Support from international sponsors is generated by autonomous organizations and consolidated operations.

(a) *Autonomous Organizations*

Supporting ChildFund are ChildFund Australia, BORNEfonden (Denmark), Un Enfant Par La Main (France), ChildFund Kinderhilfswerk (Germany), ChildFund Ireland, ChildFund Japan, ChildFund Korea, Barnfonden (Sweden), Taiwan Fund for Children and Families, ChildFund Educo and ChildFund New Zealand. These autonomous organizations are incorporated in their respective countries for the purpose of initiating and overseeing programs that are distinct and unique to their mission. Because ChildFund does not control these organizations, their related assets, liabilities, net assets, revenues and expenses are not reflected in the accompanying consolidated financial statements.

The sponsorships and special gifts for children received from these organizations are included in the consolidated statements of activities for the years ended June 30, 2016 and 2015 and are summarized by country in the accompanying table. As of June 30, 2016 and 2015, ChildFund has sponsorship receivables from these autonomous organizations totaling \$2,000,589 and \$1,845,632, respectively. These receivables are the result of the timing of collection of funds as compared to deposit by the international offices. ChildFund recognized service fee revenue from these autonomous organizations in the consolidated statements of activities for the years ended June 30, 2016 and 2015 of \$1,094,826 and \$1,248,225, respectively. The service fee covers the administrative costs of processing payments and ensuring proper receipt of funding to the local partners and ChildFund National Offices that support the sponsored children of the autonomous organizations.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(b) Consolidated Operations

ChildFund works with national fund raising offices in Brazil, Mexico, Thailand and other countries that provide sponsorship revenue. These offices are organizations or segments of organizations that are independently registered in conformity with the laws of their respective countries. ChildFund possesses the power to direct the management and policies of these offices through affiliation agreements and consolidates the financial position and activities of these organizations.

The sponsorships and special gifts for children received internationally from the autonomous organizations and consolidated operations are included in the consolidated statement of activities for the years ended June 30, 2016 and 2015, and are summarized in the accompanying table.

	<u>Sponsorships</u>	<u>Special gifts for children</u>	<u>General contributions</u>	<u>Total 2016</u>	<u>2015</u>
Autonomous organizations:					
Australia	\$ 11,160,413	555,569	302,010	12,017,992	15,203,911
Denmark	2,524,570	242,151	2,352	2,769,073	3,214,677
Educo	—	—	30,000	30,000	—
France	1,453,230	71,540	110,862	1,635,632	1,825,146
Germany	4,016,569	231,566	282,748	4,530,883	5,033,768
Ireland	616,590	94,569	19,680	730,839	858,722
Japan	101,946	—	9,985	111,931	127,502
Korea	3,268,849	50,068	546,926	3,865,843	3,935,317
New Zealand	4,190,544	403,817	87,076	4,681,437	5,972,680
Sweden	4,055,945	598,582	333,693	4,988,220	5,591,131
Taiwan	6,354,173	553,797	25,658	6,933,628	7,448,554
Total autonomous organizations	<u>37,742,829</u>	<u>2,801,659</u>	<u>1,750,990</u>	<u>42,295,478</u>	<u>49,211,408</u>
	<u>Sponsorships</u>	<u>Special gifts for children</u>	<u>General contributions</u>	<u>Total 2016</u>	<u>2015</u>
Consolidated operations:					
Brazil	\$ 1,484,893	341,234	170,974	1,997,101	2,664,156
Mexico	789,611	27,981	411,578	1,229,170	1,607,092
Thailand	8,426,722	140,647	2,267,848	10,835,217	11,475,903
Other	3,084	—	—	3,084	2,984
Total consolidated operations	<u>10,704,310</u>	<u>509,862</u>	<u>2,850,400</u>	<u>14,064,572</u>	<u>15,750,135</u>
Total international sponsors	<u>\$ 48,447,139</u>	<u>3,311,521</u>	<u>4,601,390</u>	<u>56,360,050</u>	<u>64,961,543</u>

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(12) Total Public Support

Public support is summarized for the years ended June 30, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
United States	\$ 155,462,403	156,793,340
Autonomous organizations, support from sponsors (note 11)	40,544,488	47,314,640
Autonomous organizations, other support	23,499,274	26,656,049
Consolidated operations, support from sponsors (note 11)	11,214,172	13,032,128
Consolidated operations, other support	2,862,498	2,739,109
Total public support	<u>\$ 233,582,835</u>	<u>246,535,266</u>

(13) Income Taxes

ChildFund has been granted exemption by the Internal Revenue Service (IRS) from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is an exempt organization in the Commonwealth of Virginia. In addition, the IRS has determined that ChildFund is not a “private foundation and is a public charity”. ChildFund recognizes an uncertain tax position in its financial statements if it is “more likely than not” that the position will be sustained. ChildFund does not believe its consolidated financial statements include or reflect any uncertain tax positions. No provision for income taxes has been recorded for the years ended June 30, 2016 and 2015.

(14) Related Party Transactions

In April 2002, ChildFund Alliance was established for charitable purposes to promote the well-being of children and their families. The Board of Directors of ChildFund Alliance consists of a significant percentage of ChildFund Board and staff; however, ChildFund does not have an economic or controlling interest in ChildFund Alliance; accordingly, ChildFund Alliance is not consolidated in ChildFund’s consolidated financial statements.

(15) Contingencies

From time to time, ChildFund is involved in various legal proceedings during the normal course of operations. In management’s opinion, ChildFund is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, results of operations and/or liquidity of ChildFund.

(16) Endowment Funds

FASB ASC 958-205-45, *Not-For-Profit Entities – Presentation of Financial Statements*, provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

ChildFund's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

ChildFund has interpreted the Commonwealth of Virginia's enacted version of the UPMIFA as allowing ChildFund to appropriate for expenditure or accumulate as much of an endowment fund as ChildFund determines is prudent for the uses, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

Unless otherwise stated in the gift instrument, the assets in an endowment fund should be donor restricted assets until appropriated for expenditure by the Board. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ChildFund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ChildFund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of ChildFund and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of ChildFund
7. The investment policies of ChildFund

Endowment net assets consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	769,095	8,514,587	9,283,682
Board-designated endowment funds	<u>3,619,999</u>	<u>—</u>	<u>—</u>	<u>3,619,999</u>
Total endowment net assets	<u>\$ 3,619,999</u>	<u>769,095</u>	<u>8,514,587</u>	<u>12,903,681</u>

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

Endowment net assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	782,501	8,434,127	9,216,628
Board-designated endowment funds	<u>3,686,220</u>	<u>—</u>	<u>—</u>	<u>3,686,220</u>
Total endowment net assets	<u>\$ 3,686,220</u>	<u>782,501</u>	<u>8,434,127</u>	<u>12,902,848</u>

The following table presents the changes in ChildFund's donor-restricted endowment funds and funds designated by the Board to function as endowment for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 3,686,220	782,501	8,434,127	12,902,848
Investment return:				
Investment income	134,203	133,630	—	267,833
Net depreciation	<u>(167,934)</u>	<u>(147,036)</u>	<u>—</u>	<u>(314,970)</u>
Total investment return	(33,731)	(13,406)	—	(47,137)
Contributions	—	—	80,460	80,460
Appropriation of endowment assets for expenditure	<u>(32,490)</u>	<u>—</u>	<u>—</u>	<u>(32,490)</u>
Endowment net assets, June 30, 2016	<u>\$ 3,619,999</u>	<u>769,095</u>	<u>8,514,587</u>	<u>12,903,681</u>

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

The following table presents the changes in ChildFund's donor-restricted endowment funds and funds designated by the Board to function as endowment for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ 4,513,540	812,406	8,385,551	13,711,497
Investment return:				
Investment income	228,925	3,217	—	232,142
Net depreciation	<u>(253,550)</u>	<u>(3,563)</u>	<u>—</u>	<u>(257,113)</u>
Total investment return	(24,625)	(346)	—	(24,971)
Contributions	—	—	48,576	48,576
Appropriation of endowment assets for expenditure	(817,827)	(14,427)	—	(832,254)
Net assets released from restrictions	<u>15,132</u>	<u>(15,132)</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2015	<u>\$ 3,686,220</u>	<u>782,501</u>	<u>8,434,127</u>	<u>12,902,848</u>

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires ChildFund to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. At both June 30, 2016 and 2015, there were no deficiencies of this nature.

(c) Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. ChildFund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. ChildFund expects its endowment funds to provide an average annual real rate of return of approximately 5%.

CHILDFUND INTERNATIONAL, USA

Notes to Consolidated Financial Statements

June 30, 2016

(with summarized financial information for June 30, 2015)

(d) *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, ChildFund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ChildFund targets a diversified asset allocation that places emphasis on investments in equities, bonds and absolute return strategies to achieve its long-term return objectives within a prudent risk framework.

(e) *Spending Policy and How Investment Objectives Relate to Spending Policy*

ChildFund has two spending policies for endowments. For endowments restricted for child sponsorships, the appropriation and expenditure typically occur within the same reporting period. The spending rate is determined by the most current monthly sponsorship rate paid by sponsors in the United States. In order to meet this spending rate, donors are asked to contribute a one-time endowment gift. Investment gains and yields are used to provide the child with food, education, basic healthcare and other assistance.

For nonsponsorship endowments, unless otherwise directed by the donor, the policy for appropriating for distribution is equal to 5% of the endowment funds' average fair value for the preceding three years. In establishing this policy, ChildFund considered the expected return on its endowments. Accordingly, ChildFund expects the current spending policies to allow its nonsponsorship endowments to maintain their purchasing power by growing at a rate equal to planned payouts. For those endowments that maintain donor restrictions, ChildFund considers the cumulative earnings and expected rate of return and then appropriates available funds for distribution in accordance with the donor restrictions.

(17) *Subsequent Events*

ChildFund has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2016 consolidated financial statements through November 22, 2016, the date the consolidated financial statements were issued.